

## U.S. Foreign Trade Zones In Kentucky Tax Advantages

Current free trade zone status is accorded to designated sites, within or near communities possessing a U.S. Customs port of entry, which provide the transportation and infrastructure amenities necessary for the manufacture and distribution of goods on a global scale. On an international basis, free trade zones are designated by a variety of terms: free port, free zone, customs free zone, transit zone, entrepot, industrial free zone, export processing zone (EPZ), and foreign-trade zone (FTZ). The U.S. term is **Foreign-Trade Zone**.

According to the U.S. Foreign-Trade Zones Board, “the basic special Customs treatment foreign goods receive under ‘zone’ procedures is the deferral of payments on imports and duty-exemption for exports. Most zone programs include a variety of other tax breaks, but the Customs benefit is the signature feature that marks an incentive program as being within this grouping.” Additional benefits are often available in zones that are part of state/local development programs.

The primary advantages associated with a foreign-trade zone or sub-zone are the following (Source: 19 U.S.C. § 81(e)):

- No duty is paid on re-exported merchandise.
- If the merchandise is sold domestically, no duty is paid until it leaves the zone or zones.
- Generally, no duty is paid on waste or yield loss.
- Duty on scrap is eliminated or reduced.
- Generally, if foreign merchandise is manufactured into a product with a lower duty rate, then the lower duty rate applies on the foreign content when duty is paid.
- Merchandise in a foreign-trade zone may be stored, repackaged, manipulated, manufactured, destroyed or otherwise altered or changed.
- Foreign goods and domestic goods held for export are exempt from state and local property taxes.

In addition, Kentucky law provides that “tangible personal property located in a foreign trade zone as designated under U.S.C. Sec. 81” is subject only to state taxes (KRS 132.200 (12)), and that the state tax rate applicable to such property is \$0.001 per \$100 valuation (KRS 132.020 (1)). This is an additional tax advantage that applies to any tangible personal property (regardless of import/export status) located in an activated Kentucky zone or sub-zone.

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